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SUBJECT: SHANGHAI VICE MAYOR AI BAOJUN DISCUSSES SHANGHAI'S ENERGY CONSERVATION PRIORITIES WITH DOC ASSISTANT SECRETARY BOHIGIAN

(U) Sensitive but unclassified. Not for dissemination outside
USG channels. Not for Internet distribution.

¶1. (SBU) Summary: During a September 5 meeting with Department of Commerce Assistant Secretary David Bohigian, Shanghai Vice Mayor Ai Baojun explained the Shanghai Government's efforts to build its alternative/renewable energy capacity, particularly focusing on wind energy and alternative energy for vehicles. Through various policy incentives such as tax rebates, subsidies, and new pricing models for power companies, the government hopes to encourage R&D and investment in renewables while implementing mandatory emissions standards as a disincentive for the continued use of traditional energy. The Shanghai Government fully supports partnerships between local companies and world-leading companies in the energy sector. End summary.

¶2. (U) During their recent visit to Shanghai, Department of Commerce Assistant Secretary David Bohigian and a delegation of eleven U.S. firms developing energy conservation technology met on September 5 with Shanghai Vice Mayor Ai Baojun. Participants on the Chinese side included Guan Heping, Vice Chairperson of the Shanghai Foreign Trade and Economic Commission, Gao Yun, Deputy Director of the Shanghai Economic Commission, and Shi Yaotian, Deputy Director of Shanghai Development & Reform Commission.

Shanghai's Priorities

¶3. (SBU) Vice Mayor Ai, who oversees Shanghai's energy conservation efforts, outlined the Shanghai Government's plans to boost energy conservation and reduce emissions by promoting clean energy technology. Shanghai is currently focused on four areas of alternative/renewable energy development: wind, solar, biomass, and alternative energies for transportation. Shanghai currently has 200 Megawatts of wind energy capacity and plans to eventually expand this to 1040 Megawatts (Note: Ai did not mention a definitive timeframe, but just stated this is a "long term goal". End note). According to Ai, Shanghai is "richly endowed" with wind energy, especially in its three outlying islands, and harnessing this energy will continue to be a priority for the city.

¶4. (SBU) Regarding solar energy, Ai thinks that the technology is promising but poses many "structural and cost constraints", making it difficult to incorporate into the design and

construction of office buildings. The city is currently experimenting with biomass renewable energy, such as the pilot project to recycle solid waste at the Shanghai Laogang Industrial Park. However, he cited prohibitive costs as a constraint on further development and utilization of this technology.

¶5. (SBU) Switching vehicles from traditional to alternative energy will be another priority for Shanghai, according to Ai. He envisions a large fleet of electric and hydrogen-powered cars and buses replacing traditional petrol vehicles in Shanghai by 2010, the start of the Shanghai World Expo. He noted how Shanghai is at the forefront of this technology in China, having provided 500 alternative energy vehicles for use at the Beijing Olympics. (Comment: Shanghai officials predict 60 million Chinese visitors and 10 million foreign visitors for the six-month Shanghai World Expo in 2010. Any Chinese or foreign companies that can showcase new and innovative products and technologies will presumably gain large exposure to potential customers. End comment).

Government Incentives

¶6. (SBU) Ai emphasized that the Shanghai Government will promote the use of alternative/renewable energy through various incentives, including tax rebates for companies importing new clean energy technology, subsidies for "innovative" power generating companies, and new pricing models to ensure lower costs and higher profits for power generating companies that use renewable energy. Power grids will purchase electricity generated from renewable energy at "full price" from power companies, and the costs will be shared by "various end users".

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In addition, the government will set up foundations to encourage public investment in renewable energy technology.

Traditional Energy Policy

¶7. (SBU) Shanghai wants to restructure its industrial mix, phasing out power-hungry manufacturing plants and focusing more on the services sector, according to Ai. The government will encourage "efficient and economical use" of traditional energy by power plants and industry while implementing mandatory emission standards, which Ai hopes will serve as a disincentive for the continued use of traditional energy resources. Reducing emissions of sulphur dioxide and nitrogen dioxide will remain a "top priority" for the Shanghai Government. (Note: Ai joked that he had the "foresight" to import desulphurization technology from the United States several years before it became mandatory when he was an executive at Baoshan Iron and Steel Corporation, China's largest steel manufacturer. End note).

Working with International Partners

¶8. (SBU) Ai emphasized the need to work with world-leading companies in the energy conservation sector in order for Shanghai to meet its energy goals. He promised the Shanghai Government's full support for the development and commercialization of new energy technology and welcomed the U.S. companies in the delegation to build their presence in the Shanghai market through partnerships with local companies.

Comment

¶9. (SBU) Coming from a business background, Ai brings business acumen to his current role as Vice Mayor. He is obviously knowledgeable about this subject, speaking without notes and going into detail on technical issues, though he deferred to the other Chinese participants on questions related to their particular areas of expertise. He also appeared to be genuinely interested in the questions posed by the U.S. companies, taking down notes, asking follow-up questions, and even offering to introduce local business partners. Although he spoke in Chinese, he appeared able to understand some English, and also used a few words at points in the meeting.

